



PENSION FUND

Frequently Asked Questions

What will happen to the benefits I have earned when changes are made to the pension plan?

As options are considered, be assured that none of those options will result in employees losing a pension. All employees will keep benefits they have earned up to the date of any possible plan changes.

Why do pension unfunded liabilities matter?

City of Memphis has a mandate for change. There is a serious and growing gap between the cost of pensions and the amount contributed by City of Memphis and employees and earned by pension investments. If nothing is done, in just five years, the cost of fully funding pensions will be 50% more than now and it will double in 10 years. In a word, the present trend line is unsustainable, and that's why Memphis, like numerous cities across the U.S., must take steps to make sure that this problem does not threaten city services or the pension system itself. The consequences of doing nothing or piecemeal solutions only create a coming crisis in city finances that would be inevitable, and if that takes place, it is possible that even pension benefits and retirees' checks could be at risk.

Already, bond ratings for some cities have been lowered because of rating agencies' concerns about the climbing unfunded liabilities for Pensions (\$640 million for City of Memphis) and the unfunded liabilities for OPEB: Other Post-Employment Benefits (\$1.3 billion for City of Memphis). When a city's bond rating is lowered, it creates a chilling effect on the national confidence in the city itself. For example, if this were done in Memphis, it would make investments in Memphis neighborhoods, new equipment for firefighters and police officers, and money-saving new technology more expensive, if the investments were allowed at all.

Why is a report by the pension actuaries being done now?

Memphis has the opportunity to act now and avoid the draconian actions taken in other cities to control rising pension costs. Cities across the U.S. have taken a variety of actions to deal with this problem, and in the worst cases, a small number of retirees have even lost benefits. Mayor Wharton wants to avert a crisis, protecting taxpayers, employees, and retirees.

What is Mayor Wharton planning to do?

Mayor Wharton has not made a decision on what his recommendation will be, but he knows there are no easy answers. That's why he asked national experts on pensions and public

finance to evaluate the options for action. In addition, he has asked city employees and the public to submit their own suggestions. All of these ideas will be evaluated in the next 30 days and when that is completed, Mayor Wharton will make a specific recommendation. Mayor Wharton has said that his priority at this point is to consider options that ensure that City of Memphis is able to pay benefits promised to current employees and retirees.

Why can't we wait for the economy – and pension earnings – to bounce back?

Actuarial and public finance experts agree that improvements in the economy will not be enough to overcome the serious unfunded liabilities that exist in local and state government pensions across the U.S. Even if stocks return to their previous peak levels, that would not restore pre-recession funding ratios.

Besides the impact of the economic collapse, other factors are compounding the problem, including Baby Boomers reaching retirement age, and longer life expectancies. Piecemeal changes cannot solve this problem. Other cities have already taught Memphis the danger of kicking the can down the road rather than taking action to resolve the problem once and for all. Few cities are doing what needs to be done to avoid a crisis, but Memphis can be one of them.

What would it cost to fully fund the annual contribution to the pension fund?

The cost of fully funding pensions is \$96 million per year – over and above the approximately \$20 million per year the City contributes today. That amount is two times more than the budgets for parks, community centers, libraries, and anti-blight programs. Or put another way, the full funding for pensions this year would have required a tax increase of about 75 cents or cuts in services of \$75 million.

Why didn't City of Memphis make the full annual required contribution to the pension program?

Before the economic collapse, the gap between full funding and the amount of city funding was \$5 million, but the gap grew to \$70 million in two years after the recession because of dramatic declines in investment earnings. During the recession and in its wake, City of Memphis revenues were significantly less because of reduced consumer spending and declining property values. The priority for City of Memphis, in the midst of the economic crisis, was to maintain funding for services needed by the public and to avoid layoffs.

Why not just wait and see what happens?

Here are the consequences of doing nothing: if pension costs go up, city funds available for other services will go down or taxes will go up to cover the shortfall. Some cities have already seen pension benefits reduced because pension costs have become one of the biggest expenditures in their budgets. Memphis has the opportunity to address this problem and balance its responsibility to taxpayers and to employees and retirees by taking action now instead of waiting for a catastrophe that could capsize the entire pension system and city finances.

Sources: U.S. Conference of Mayors, Center for State and Local Government Excellence, Harvard University Kennedy School, Milken Institute, Pew Charitable Trust, PwC (PriceWaterhouseCoopers)